Revisiting the Regulatory and Supervision Framework of the Microfinance Industry in Ethiopia

Proceedings from a Seminar Organized by the Relief Society of Tigray (REST), on behalf of the Drylands Coordination Group in Ethiopia and Sudan, Mekelle, August 25, 2001

Wolday Amha
August 2001

DCG Proceedings No. 3
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The Drylands Coordination Group (DCG) is an NGO-driven forum for exchange of practical experiences and knowledge on food security and natural resource management in the drylands of Africa. DCG facilitates this exchange of experiences between NGOs and research and policy-making institutions. The DCG activities, which are carried out by DCG members in Ethiopia, Eritrea, Mali and Sudan, aim to contribute to improved food security of vulnerable households and sustainable natural resource management in the drylands of Africa.

The founding DCG members consist of ADRA Norway, CARE Norway, Norwegian Church Aid, Norwegian People's Aid, The Stromme Foundation and The Development Fund. Noragric, the Centre for International Environment and Development Studies at the Agricultural University of Norway, provides the secretariat as a facilitating and implementing body for the DCG. The DCG’s activities are funded by NORAD (the Norwegian Agency for Development Cooperation).
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OPENING SPEECH

By Ato Teklewoini Assefa
Director of The Relief Society of Tigray (REST)

Invited Guests

Ladies and Gentlemen

In the last six/seven years the microfinance in Ethiopia has shown a remarkable growth in terms of outreach & performance. Since the proclamation issued in 1996, nineteen microfinance institutions have been registered under the National Bank of Ethiopia and are delivering financial services to over 600,000 clients across the country.

Poverty and food insecurity are like main challenges and fundamental issues of economic development in Ethiopia. All microfinance institutions in Ethiopia focus on poverty alleviation.

If the poor are to share in the economic growth, the government of Ethiopia must committee adequate resources to build the institutions that serve the poor.

The poor want access to credit not subsidies. They want rapid, reliable continued access to financial services. They borrow small amounts, but these tiny loans have a huge impact. Any of our 500,000 clients across the country can tell you the difference a small loan can make in their lives and in their work.

The delivery of efficient and effective microfinance services to the poor required conducive macro economic policies and the establishment and enforcement of legal and regulatory framework.

Government has a critical in role increasing an enabling environment for the development of microfinance and the conduct of small business.

Based on my limited experience over the last six or seven years, banking with the poor requires a good management ability, especially in controlling the cost of operation and in assessing the risk involved.

Our major topic of discussion for this workshop is revisiting the regulatory & supervision framework of the microfinance industry in Ethiopia.

It is one of the areas of concern for the development of microfinance in Ethiopia.

It can make or break microfinance providers. The government of Ethiopia, the Association of Ethiopian Microfinance Institutions (AEMFI) and donors are fully committed to provide all possible assistance to the microfinance industry in the country.

Our task is here challenging and we believe we are on the right path. A workshop like this will substantially contribute to the achievement of our goal in refining and making the regulatory & supervision framework effective.
I hope this workshop will be a success in drawing useful lessons and making contribution to the concerns all of us have on the issue of designing a sustainable microfinance institution to serve the very poor people in Ethiopia.

Thank you for your attention
I. INTRODUCTION

Objective of the Study

1. To assess the existing status of the financial sector in general and the MFIs in particular

2. To assess and evaluate the legal environment under which the MFIs are operating

3. To compare the Ethiopian regulatory framework for microfinance operations with those of some other countries that have sound legislation

4. To analyze the positive impact as well as containing factors of the legislation on the delivery of financial services to the poor

5. To recommend the legislative or regulatory issues demanding advocation and lobby for change

Methods of Data Collection

1) Questionnaire - based survey

2) Discussion and consultations

3) Secondary data

Used descriptive and qualitative analysis

Organization of the Study

- Reviews of the current status of the financial system and the microfinance industry
- Presents the legal and regulatory framework of the microfinance industry
- Discusses the basic results of the fieldwork with special emphasis on the constraints and opportunities of the microfinance industry
- Presents major recommendations and policy implications of the major findings
II. THE DEVELOPMENT OF THE FINANCIAL SYSTEM AND ITS TRANSITION

The development of the financial system in Ethiopia could be categorized into three regimes.

1) The development of private banking system during Haile Selassie

2) The complete ownership of banks by the state in the Derg era; Nationalization of banks in January 1977

3) The transition to private banking system after the economic liberalization, 1992

The need for supervision of the banking sector emerged in the transition period due to the fast growth of private banks and insurance companies. This required rebuilding the regulatory framework for the financial sector and the issuance of:

- Monetary and banking proclamation (Proclamation no. 83/1994). Which increased the autonomy of the NBE to supervise banks and insurance companies

- Licensing and supervision of banks and insurance companies (Proclamation No. 84/1994)

Table 1 Distribution and share of banking business in Ethiopia, 2000

<table>
<thead>
<tr>
<th>Bank</th>
<th>Number of Branches</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Bank of Ethiopia (CBE)</td>
<td>170</td>
<td>55.02</td>
</tr>
<tr>
<td>Development Bank of Ethiopia (DBE)</td>
<td>32</td>
<td>10.36</td>
</tr>
<tr>
<td>Construction and Business Bank of Ethiopia (CBBE)</td>
<td>20</td>
<td>6.47</td>
</tr>
<tr>
<td>Awash International Bank (AIB)</td>
<td>22</td>
<td>7.12</td>
</tr>
<tr>
<td>Dashen Bank (DB)</td>
<td>20</td>
<td>6.47</td>
</tr>
<tr>
<td>Wegagen Bank (WB)</td>
<td>19</td>
<td>6.15</td>
</tr>
<tr>
<td>Bank of Abyssinia (BOA)</td>
<td>12</td>
<td>3.88</td>
</tr>
<tr>
<td>United Bank (UB)</td>
<td>7</td>
<td>2.27</td>
</tr>
<tr>
<td>Nib Bank (NB)</td>
<td>7</td>
<td>2.27</td>
</tr>
</tbody>
</table>

Source: National Bank of Ethiopia

- As a result a separate supervision department was set up in early 1996 under the NBE.

- When the microfinance law was issued in 1996 (proclamation 40/1996), the NBE was empowered supervise the MFIs
III. THE STRUCTURE OF THE DELIVERY OF FINANCIAL SERVICES TO THE POOR IN ETHIOPIA (THE FINANCIAL LANDSCAPE)

1) Saving and Credit Association (SCA)
   - The SCA movement in Ethiopia started in mid-1990s
   - SCA were granted legal status by the cooperative societies proclamation act. No. 241/66 issued in 1966
   - After 1974, there was radical transformation of the cooperative movement in Ethiopia
   - This is clearly indicated in the cooperative societies proclamation (No. 138/78). Where a special organ to promote SCA was established i.e. Savings and Credit Cooperative Development Office (SACCDO)
   - In order to revitalize and organize the cooperatives after the economic liberalization, new cooperative law was issues
   - In 1999 there were 716 saving and credit cooperatives with 156,938 members and 174,577,503 Birr of savings.

2) Delivery of financial services to the poor by formal Banks
   - DBE - Input loan to farmers (until 1997)
   - CBE - Input loan (through whole sales and regional government)

   The default rate of the input loan by Development Bank of Ethiopia was high

3) NGO initiated microcredit programs
   - Soft loans
   - Low interest rate
   - It played important role in relieving the stress and temporary shocks
   - They used flexible methodologies

4) Different government departments such as the regional trade and industry bureaus, etc

5) Emergence of formal MFIs

After the issuance of the proclamation 40,1996 the NGO supported microcredit programs reorganized their program to fit the microfinance law. Currently we have 19 MFI registered under the National Bank of Ethiopia
Table 2  Active clients, share of women, rural and urban clients of MFIs in Ethiopia, January 2001.

<table>
<thead>
<tr>
<th>Microfinance Institutions</th>
<th>Active clients</th>
<th>Women (%)</th>
<th>Rural (%)</th>
<th>Urban (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amhara Credit &amp; Savings institutions S.C</td>
<td>192,571</td>
<td>47</td>
<td>75</td>
<td>25</td>
</tr>
<tr>
<td>Dedebit Credit &amp; Saving Institutions S.C</td>
<td>187,550</td>
<td>41</td>
<td>80</td>
<td>20</td>
</tr>
<tr>
<td>Oromia Credit &amp; Saving Institution S.C (OCSI)</td>
<td>37,000</td>
<td>12</td>
<td>99</td>
<td>1</td>
</tr>
<tr>
<td>Omo Microfinance Institution S.C</td>
<td>39,342</td>
<td>35</td>
<td>95</td>
<td>5</td>
</tr>
<tr>
<td>Specialized Financial &amp; Promotional Institution</td>
<td>3,700</td>
<td>80</td>
<td>1</td>
<td>99</td>
</tr>
<tr>
<td>Gasha Micro-financing S.C</td>
<td>3,217</td>
<td>85</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Wisdom Micro-financing Institutions</td>
<td>8,535</td>
<td>30</td>
<td>85</td>
<td>15</td>
</tr>
<tr>
<td>Sidama Micro-financing Institution S.C</td>
<td>4,286</td>
<td>60</td>
<td>90</td>
<td>10</td>
</tr>
<tr>
<td>Mekket Microfinance Institution S.C</td>
<td>2,300</td>
<td>85</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>PEACE Microfinance Institution S.C</td>
<td>974</td>
<td>62</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>Addis Credit and Savings Institution S.C</td>
<td>7,000</td>
<td>70</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>Eshet Microfinance Institution S.C</td>
<td>516</td>
<td>54</td>
<td>70</td>
<td>30</td>
</tr>
<tr>
<td>Wasasa Microfinance Institution S.C</td>
<td>562</td>
<td>31</td>
<td>69</td>
<td>31</td>
</tr>
<tr>
<td>Asser Micro-financing S.C</td>
<td>3,100</td>
<td>-</td>
<td>73</td>
<td>27</td>
</tr>
<tr>
<td>Africa Village Financial Service S.C</td>
<td>450</td>
<td>60</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>Buussa Gonofa Microfinance S.C</td>
<td>2758</td>
<td>85</td>
<td>87</td>
<td>13</td>
</tr>
<tr>
<td>Meklit Microfinance Institution S.C</td>
<td>1,001</td>
<td>73</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>Benishangul Microfinance Institution S.C</td>
<td>425</td>
<td>60</td>
<td>100</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Compiled by authors based on fieldwork

The MFIs are in different stages of development. Some are relatively big and some very small.

Outreach -
Active clients
Women clients
Urban/rural

6) Semi-formal and informal sector

Demand for microfinance services

- There is very high demand for the delivery of financial services to the poor
- Actually, we estimated that the MFIs only cover 9% of the demand for microfinance services by the active poor

Performance of MFIs

Outreach:
- About 500,000 active clients
- Delivered loans of 526 million
- Mobilized more than 150 million birr
- Average loan size 1000 birr
- 44% women clients

**Weaknesses of the financial system**

a) Inadequate supervisory capacity of the supervision department of the NBE

**N.B.** The microfinance industry received very limited attain

b) Poor repayment performance of banks
c) Poor MIS and financial management, particularly the MFIs
d) Shortage of technical skills
e) Lack of competition
IV. REGULATION AND SUPERVISION IN ETHIOPIA

Rationale to regulate the microfinance industry in Ethiopia

- The delivery of input loan by the Agricultural and Industrial Development Bank (AIDB) was a failure

Table 3 Repayment rate, outstanding and arrears of rural credit of agricultural and industrial development bank (1985-93)

<table>
<thead>
<tr>
<th>Year</th>
<th>Repayment Rate (%)</th>
<th>Loan Portfolio (000 Birr)</th>
<th>Arrears as % of outstanding loans</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Outstanding (000 Birr)</td>
<td>Arrears (000 Birr)</td>
</tr>
<tr>
<td>1985/86</td>
<td>36</td>
<td>85,000</td>
<td>11,000</td>
</tr>
<tr>
<td>1987</td>
<td>55</td>
<td>81,000</td>
<td>29,000</td>
</tr>
<tr>
<td>1988</td>
<td>68</td>
<td>98,000</td>
<td>41,000</td>
</tr>
<tr>
<td>1989</td>
<td>63</td>
<td>114,800</td>
<td>46,300</td>
</tr>
<tr>
<td>1990</td>
<td>31</td>
<td>126,000</td>
<td>67,300</td>
</tr>
<tr>
<td>1991</td>
<td>47</td>
<td>123,263</td>
<td>120,762</td>
</tr>
<tr>
<td>1992</td>
<td>15</td>
<td>151,558</td>
<td>121,116</td>
</tr>
<tr>
<td>1993</td>
<td>11</td>
<td>198,711</td>
<td>176,900</td>
</tr>
</tbody>
</table>

Source: Bekele Tilahun (1995)

- The arrears of AIDB have been progressively increasing incurring significant amount of losses
- This has destroyed the credit culture of the community
- Farmers expecting rescheduling or write off

- Although the NGO initiated microcredit activities contributed in testing innovative methodology, they have major shortcomings.
  - Real interest rates were low
  - Absence of sound lending and collection policies and procedures
  - Absence of sound system to verify borrowers integrity and business skills
  - Lending was based upon NGO staff perception (absence of credit analysis)
  - Loan term did not reflect borrower repayment capacity
  - Loans were provided without serious expectation of repayment
  - The risk in loan portfolio was not properly assessed
  - Loan security was either not required, or if required, not exercised upon default
- Loan size was inappropriate for the borrowers income producing opportunity
- In some cases loans were granted to personal friends, and relatives of loan officers or influential community leaders

- Pisckes et.al study (1996) recommended that NGOs delivery of financial services should be subject to national standards

Microcredit initiative in pre 1990 had the following characteristics:

- Project concept
- Subsidized
- Very high default rate
- Absence of financial discipline
- Concentrated on loan and giving less attention to saving mobilization
- Donors are considered as the source of loan fund
- It was not a real financial intermediation

As the result of the above problems, there was a need change the direction and direct the new development towards building sustainable financial service delivery system. This necessitated a regulatory framework.

- Thus, prudential regulation and supervision of microfinance institutions was a critical issue in promoting sustainable MFIs

- The motives of regulating the microfinance industry include:
  - Promoting the microfinance industry to alleviate poverty
  - Protecting the safety of depositors
  - Increasing the barriers to NGOs which mix charting and the delivery of financial services
  - Introduce a strong financial discipline in the delivery of financial services to the poor
  - Increase the mobilization of savings

- The high risk profiles of MFIs will increase the importance of regulation and supervision in the industry
Main Features of the Regulatory Framework

(The regulatory framework includes the proclamation 40/1996 and the 12 directives of the National Bank of Ethiopia (NBE))

- NBE (proclamation No. 83/1994) has the authority to license and supervise, and regulate banks, insurance companies and other financial institutions
- The Proclamation includes foreign nationals (banks) from involving in banking business
- Entry to the microfinance industry and ownership
  - Minimum paid up capital of Birr 200,000 (the MFIs deliver loans much higher than this)
  - The MFIs should be fully owned by Ethiopians
  - An MFI should be established as share company (it attempts to create business like shareholders), however, there is no private capital in the industry
- Clear criteria of selecting officers and directors of board of the MFI
  - Board members should have the educational level of high school complete
  - CEO of MFI should have at least first degree with minimum of three years experience in senior post in a financial institution
- Operational modality
  - The practitioners understand that the law only allows group guarantee
  - Loan ceiling of 5,000 Birr
  - Loan term of maximum 12 months
- Interest rate
  - Removed the lending interest rate
  - The minimum interest rate for saving was set 6%
- Reporting
  - Submit quarterly reports of income statement, balance sheets, reports on loan, savings, and provisioning to the NBE
- Annual external audits are required in each MFI
- Branching out
  - Inform the NBE on opening new branch
  - MFIs can only close a branch after obtaining approval from the NBE
• Taxable status
  - There is no clear government directive on tax exemption for MFIs

• Re-registration
  - MFIs should register when the saving mobilized reached Birr 1,000,000

• Supervision
  - Off-site supervision by NBE
  - On-site supervision by NBE
  - The methods used to supervise banks and MFIs by the NBE is the same

Comparing the Ethiopian Legal Framework with other countries
  - Difficult to compare with other countries
V. REGULATORY AND SUPERVISION ISSUES IN THE MICROFINANCE INDUSTRY

- Governance
  - No clear ownership
  - Absence of true shareholders (nominal shareholders)
  - Limited experience of board members on microfinance
  - Discouraged wider participation of donors in the industry
  - The shareholders do not have enough incentives
  - The CEOs of some of the MFIs are also the managing directors of the founding NGOs
  - In few cases, the managers of the mother NGO is the manager of the MFI and the board chairperson of the MFI
  - This will mix-up the charity objective of the NGO with the financial and economic objectives of the MFI

- Suggested Interventions
  - Establishing technical advisory boards to support the existing boards
  - Restructuring the board
  - Avoid conditions where managers of NGO are at the same time managing the MFI
  - Provide board training
  - Proper legal mechanisms to enforce the accountability of board members
  - Establish a transparent system

  - MIS
    - Internal control system

  - Conduct annual external audit
  - Develop a system of incentive to motivate board members
  - Conduct detailed studies on improving the governance and management of MFIs

- Supervision
  - Absence of regular supervision of MFIs, very limited on site supervision
  - Limited staff of the NBE
  - Supervising MFIs is the least priority of the NBE
  - The tool of supervision is the same for both banks and MFIs

- Suggested Intervention
  - Increase the staff of supervision department
  - Improve the technical skill of the staff
  - Establish and strengthen a microfinance supervision division
  - Enforce periodic reporting of MFIs to the NBE
  - Increase the on-site supervision
  - Introduce appropriate prudential ratios
- Build the capacity of MFIs in implementing effective internal control system
- Assist MFIs in developing business plan and MIS
- Performance monitoring in the industry with the support of AEMFI

- The cost of supervision
  - High cost of supervision
  - Introduce cost-effective regulation and supervision

- Operational modalities
  - Remove the loan term (12 months)
  - Remove the loan ceiling
  - The law should clearly state that MFIs can use different lending methodologies

- Role of NGOs
  - NGOs and donors are behind all the development of MFIs
  - The role of NGOs in the direct delivery of microfinance institutions declined significantly
  - Few NGOs are using saving and credit cooperatives in order to deliver financial services to the poor

- Suggestion
  - Encourage the involvement of NGOs and donors
  - Invalue donors and NGOs in the decision making process of MFIs
  - Encourage donors to provide:
    - Advisory services
    - Seed money
    - Business Development Service (BDS)
    - Support for saving and credit cooperatives
    - Support in promoting research & innovations

  - Improve the internal control and MIS
  - Implement effective internal control & audit
  - Introduce computerized MIS
  - Interest rate
    - The lending interest rates of MFIs are low which do not allow MFIs to cover cost
    - Lifting the ceiling of interest rate for savings (research could be the precondition before lifting the ceiling of interest rate)

  - Monitoring and evaluation of the regulatory framework
  - Supervising the saving and credit cooperatives
Other issues

- Absence of deposit insurance
- Low capital requirement (equity capital requirement)
- The danger of bankrupts
- Establishing a wholesale window
- Tiered approach to regulate the industry
- Accessing funds from the external sources
- Exemption from taxes
VI. ISSUES RAISED DURING THE DISCUSSION

Question: If the demand of Microfinance services in Ethiopia is high what will be the role of NGOs?

Answer: In the Ethiopian context there are NGOs behind every MFI. NGOs are prohibited by law from the delivery of financial services in urban and rural areas. However, NGOs can contribute a lot in promoting the delivery of financial services by providing loan fund, capacity building and delivering business development services to clients.

Question: Establishing MFIs as share companies and the name share company itself has discouraged NGOs from increasing their support. Is it not possible to change the name?

Answer: What is important is not the name but the content. If they are not to be share companies what options do we have which type of ownership structure is appropriate? This needs to be studied.

Question: Shouldn’t the MFIs be exempted from taxes?

Answer: The answer is Yes. All MFIs in Ethiopia are not profitable and all do have the objective of poverty alleviation. The government should give them all round support to promote the microfinance industry. To this, the Ministry of Finance has written a letter to the Tax Authority that MFIs will be exempted from any type of taxes.

Question: If MFIs do have excess liquidity, does the regulation not allow them to invest in different areas? Shouldn’t this be included in improved microfinance law?

Answer: This was not raised an issue when we conducted this study. Many of the MFIs were complaining about the lack of loan fund. However, if there is such a problem in the industry, MFIs should have equal opportunities like the formal banks.

Question: Do we have other alternative technology other than the group guarantee? (This was addressed to the staff of NBE)

Answer: Since the poor do not have property collateral, group guarantee is an innovative methodology. However, the proclamation is not closed to other innovative approaches, including the individual lending.

Question: In the information provided by study, there are shares of individuals on the other hand it is reported that there is private capital. Is it not a contradiction?

Answer: Yes it is a contradiction. It is reported in the study that the shareholder of MFIs are nominal shareholder. The capital of the MFIs is mainly generated by the NGOs. However, to fit to the regulation, the individuals will be given nominal shares. However, the shareholders do not get any dividend. What we propose
is to change this type of ownership structure, which does not reflect the real environment.

**Question:** Does the regulation not discourage donors?

**Answer:** Initially, immediately after the issuance of the microfinance law, the reaction of the donors was negative. However, after observing the advantages and consistencies of the government policies, many NGOs and donors are appreciating the microfinance law, which can be, shared to other countries as best practices. Some have been lobbying for revision and improvement.

**Question:** Why are the products of MFIs in Ethiopia very similar?

**Answer:** There are different factors for the above question. Some of them are:

a) the regulatory framework itself which states the loan limit (5,000) Birr
b) very high demand for the financial services delivered by the MFIs
c) Absence of competition among MFIs which does not encourage them to be innovative
d) Absence of technical skill to produce new products and,
e) Donors guiding the products of MFIs

**Question:** What are the reasons for the absence of private capital in the microfinance industry? Was there a wrong assumption when preparing the microfinance law?

**Answer:** As indicated in the study, MFIs are not profitable. Thus, private investors are not attracted to invest in the industry. Had the MFIs increased their lending interest rates, they would have been profitable. We believe that the proclamation is in the right direction in indicating the sustainable development of the industry. However, the proclamation as it is now failed to attract both the NGOs and the private sector on the other hand, the sector is young and it is not expected to radically change the situation in a short span of time.

**Question:** What is the plan of the NBE to take all the responsibility of providing technical supervision services in the industry?

**Answer:** Currently the National Bank of Ethiopia has very limited capacity in regulating the industry or providing technical support to MFI. However, the NBE is currently establishing a microfinance supervision division in order to provide specialized supervision services to the industry. Due attention will be given to the microfinance industry.

**Question:** What is the role of the Association of Ethiopian Microfinance Institutions (AEMFI) in Ethiopia in terms of improving the regulatory framework?
AEMFI has created the forum to the practitioners, policy makers, donors and other stakeholders to discuss major problems of the sector. Improving the regulatory framework has been the major concern of MFIs in Ethiopia and AEMFI has conduct a detailed study on the regulatory framework and conducted a series of workshops on top of this AEMFI has planned to establish a performance monitoring section in its offices. It is on the process of employing a financial analyst to take this job. Actually AEMFI has no objective of supervising the industry. The NBE, by law, has the right of supervising the industry. However, the performance monitoring exercise by AEMFI has a positive impact on the supervision effort of the NBE.

How do we resolve the ownership issue of MFIs?

This is a serious issue in the industry. We need to conduct a detailed study on the governance of MFIs in order to resolve this issue for good.
VII. GROUP DISCUSSION ON CONSENSUS STATEMENTS

A. Actions by the Government (NBE, Ministry of Finance, etc)

The regulation in Ethiopia should respond to the need of the microfinance industry. This includes:

- Highly decentralized branch or delivery structure
- Simple loan tracking and accounting regulations which do not require standardized loan documentation
- Simple reporting requirement focusing on overall performance indicators.
- Appropriate performance standards
- The regulation should permit flexible hiring of microfinance staff and performance-based incentives
- Build the capacity of MFIs in terms of creating an effective and efficient internal control system
- Build a system of monitoring and evaluating the regulatory system regularly
- The regulation should supervise saving and credit cooperatives
- Establishing wholesale window, facilitate inter-MFI lending and link the MFIs with the formal banking sector.

On the top of the group collateral approach, the regulatory framework should also encourage other lending methodologies such as individual lending

- The loan ceiling or single borrower limit, which is 5000 Birr, should be waived
- The loan term which is one year, should be waived
- Improve governance of MFIs
- Clear ownership
- Establish technical advisory board of MFIs

- MFIs should be free to set their own saving interest rates (No regulated interest rate ceiling)

- The regulation should provide higher minimum capital requirements for MFIs

- The regulations should explicitly provide capital adequacy ratios and reserve requirements that fit the nature of microfinance industry in Ethiopia

- The regulation and supervision of MFIs in Ethiopia should fit to the various stages of the development of microfinance institutions

- The National Bank of Ethiopia should increase its capacity to effectively supervise the microfinance activities in Ethiopia

- The National Bank should promote the microfinance law

- Favorable tax treatment should be provided to develop the microfinance industry in Ethiopia
- The National Bank should enforce the requirement of annual external audit and regular reporting

- The regulation should facilitate direct access to foreign loan (facility foreign concessional loans foreign exchange permit, and bearing the exchange risk)

**B. Group Discussion on Consensus Statements: Actions by the MFIs**

- Board members of the MFIs should have the vision, capabilities and clarity on board-management roles needed to support MFIs in becoming strong institutions, with significant reach and impact

- Restructuring the board of MFIs to improve the board mix

- Providing board training

- Implement clear board responsibility

- Introduce system of incentives for board members

- Conduct studies on good governance of MFIs

- MFI should strengthen their institutional capacity, and train their staff to build a business-like organizational culture

- MFIs in Ethiopia should create a set of agreed performance standards to measure and build sustainable responsive and efficient microfinance operation. These indicators should include:
  
  a) Low percentage of portfolio at risk and arrears under 5%
  
  b) High levels of operational and financial self-sufficiency-covering all costs with operating income 3 to 5 years, and achieving full financial self-sufficiency in 7 to 10 years.
  
  c) Low cost per unit of money lent.
  
  d) A high number of loan accounts per credit officer (a minimum of over 200 for individual loans).
  
  e) Strong annual growth rate in the portfolio.
  
  f) High savings to lending ratio, when savings are mobilized
  
  g) Significant and growing percentage of portfolio funded from commercial sources

- MFIs should have the operating system, MIS, and financial control systems needed to achieve efficient, sizeable and sustainable operations.

- Minimize fraud through effective internal control

- Conduct annual external audit
VIII. NEXT STEP

The workshop participants agreed that the Association of the Ethiopian Microfinance institutions (AEMFI) takes the responsibility of formally submitting the consensus reached in this workshop to the National Bank of Ethiopia. The AEMFI will also take the responsibilities to follow up the implementation of the consensus reached in the Mekelle workshop.
IX. REFERENCES


### X. APPENDICES

#### 10.1 WORKSHOP PROGRAMME

<table>
<thead>
<tr>
<th>Day</th>
<th>Time</th>
<th>Participants Arriving at the Workshop Hall</th>
<th>Presenter</th>
<th>Facilitator</th>
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<tr>
<td>SATURDAY</td>
<td>8:00-9:00</td>
<td>Participants arriving at the workshop hall</td>
<td>----</td>
<td>Committee</td>
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<tr>
<td>SATURDAY</td>
<td>9:00-9:10</td>
<td>Welcoming and opening speech</td>
<td>Ato Teklewoini Assefa</td>
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<td>SATURDAY</td>
<td>9:10-10:00</td>
<td>Paper presentation</td>
<td>Dr. Wolday Amha</td>
<td>Dr. Eyob Tesfaye (NBE)</td>
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<td>SATURDAY</td>
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<td>Discussion</td>
<td>Dr. Eyob Tesfaye</td>
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<td>SATURDAY</td>
<td>12:00-1:30</td>
<td>Lunch</td>
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<td>SATURDAY</td>
<td>1:30-3:00</td>
<td>Group discussion</td>
<td>Dr. Eyob Tesfaye</td>
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<td>SATURDAY</td>
<td>3:00-3:30</td>
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<td>SATURDAY</td>
<td>3:30-4:30</td>
<td>Group presentation</td>
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<td>Dr. Eyob Tesfaye</td>
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<td>SATURDAY</td>
<td>4:30-5:00</td>
<td>Discussion on the workshop process and content</td>
<td>Dr. Eyob Tesfaye</td>
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<td>SATURDAY</td>
<td>5:00-5:15</td>
<td>Closing speech</td>
<td>Dr. Eyob Tesfaye</td>
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### 10.2 LIST OF WORKSHOP PARTICIPANTS

<table>
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<tr>
<th>S.No.</th>
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<tr>
<td>1.</td>
<td>Worku Tsega</td>
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<td>2.</td>
<td>Debebe Mojo</td>
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<td>Landuber Araya</td>
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<td>Mulatu Temsgen</td>
<td>OCSSCO</td>
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<td>5.</td>
<td>Tesfaye Befekadu</td>
<td>OMFI</td>
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<tr>
<td>6.</td>
<td>Getahun Nana</td>
<td>NBE</td>
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<td>7.</td>
<td>Yosef Bekele</td>
<td>ADCSI</td>
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<td>8.</td>
<td>Tihut Yirga</td>
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<td>9.</td>
<td>Felleke Mamo</td>
<td>NBE</td>
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<td>10.</td>
<td>Dr. Eyob Tesfaye</td>
<td>NBE</td>
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<tr>
<td>11.</td>
<td>Dr. Wolday Amha</td>
<td>AEMFI</td>
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<td>12.</td>
<td>Fadul Beshir</td>
<td>ADRA –Sudan</td>
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<td>13.</td>
<td>Teka G/Egziabhier</td>
<td>DECSI</td>
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<td>14.</td>
<td>T/berhan Araya</td>
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<td>15.</td>
<td>Atakliti Kiros</td>
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<td>16.</td>
<td>Heshe Lemma</td>
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<td>17.</td>
<td>Mohammed Mareuf</td>
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<td>Mulugeta Berhane</td>
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<td>Aster Yosef</td>
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<td>21.</td>
<td>Haile Tesfaye</td>
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<td>22.</td>
<td>Melaku G/Michael</td>
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<td>23.</td>
<td>Woldu G/Egziabiher</td>
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<td>G/Michael Giday</td>
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<td>Berhane G/Egziabiher</td>
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<td>26.</td>
<td>Tsegaye Hadera</td>
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<td>Hailay Hagos</td>
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<td>28.</td>
<td>Abreha Tesfaye</td>
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<td>Gitk Motesfeldr</td>
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<td>31.</td>
<td>Mulugeta Berhanu</td>
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<td>33.</td>
<td>Muruts Desta</td>
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<td>H/Selassie W/Selassie</td>
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<td>Solomon G/Medhin</td>
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<td>Sisay Mulatu</td>
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<tr>
<td>38.</td>
<td>Yaynishet Tesfaye</td>
<td>Mekelle University</td>
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<td>Assefa Sisay</td>
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<td>Tesfaye Hagos</td>
<td>Agriculture Bureau</td>
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<tr>
<td>42.</td>
<td>Zaid Negash</td>
<td>MBC</td>
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<td>43.</td>
<td>Alem Girmay</td>
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<td>Abebe Ejigu</td>
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<td>Fisseha Girmay</td>
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<td>Towres Tekie</td>
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<td>47.</td>
<td>T/Woinie Assefa</td>
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List of Publications

Reports:


1 B.  Synnevåg, G. and Halassy, S. 1998: “Food Security Indicators in Two Sites of Norwegian Church Aid’s Intervention Zone in Mali: Bambara Maoudé and N’Daki (Malian Gourma)”, Drylands Coordination Group and Noragric, Agricultural University of Norway.


Proceedings:

Drylands Coordination Group

Drylands Coordination Group Addresses in Norway:

**ADRA Norge**, Akersgata 74, 0180 Oslo
Tel: +47 22 11 20 80, Fax: +47 22 20 53 27
e-mail: 102555.2157@compuserve.com

**CARE Norge**, Universitetsg. 12, 0164 Oslo, Norway
Tel: +47 22 99 26 00, Fax: +47 22 99 26 01
e-mail: care.norge@care.no

**The Development Fund**, Nedregt. 8, 0551 Oslo, Norway
Tel: +47 22 35 10 10, Fax: +47 22 35 20 60
e-mail: u-fondet@u-fondet.no

**Norwegian Church Aid**, P.O. Box 4544 Torshov, 0404 Oslo, Norway
Tel: +47 22 09 27 99, Fax: + 47 22 09 27 20
e-mail: nca-oslo@sn.no

**Norwegian People’s Aid**, P.O. Box 8844 Youngstorget, 0028 Oslo, Norway
Tel: +47 22 03 77 00, Fax: +47 22 20 08 70
e-mail: norsk.folkehjelp@npaid.no

**Noragric, Centre for International Environment and Development Studies**
Agricultural University of Norway, P.O. Box 5001, 1432 Ås, Norway
Tel: +47 64 94 99 50, Fax: +47 64 94 07 60
e-mail: noragric@noragric.nlh.no